Ontario

Debt Management & Borrowing

Ontario Financing Authority (OFA)

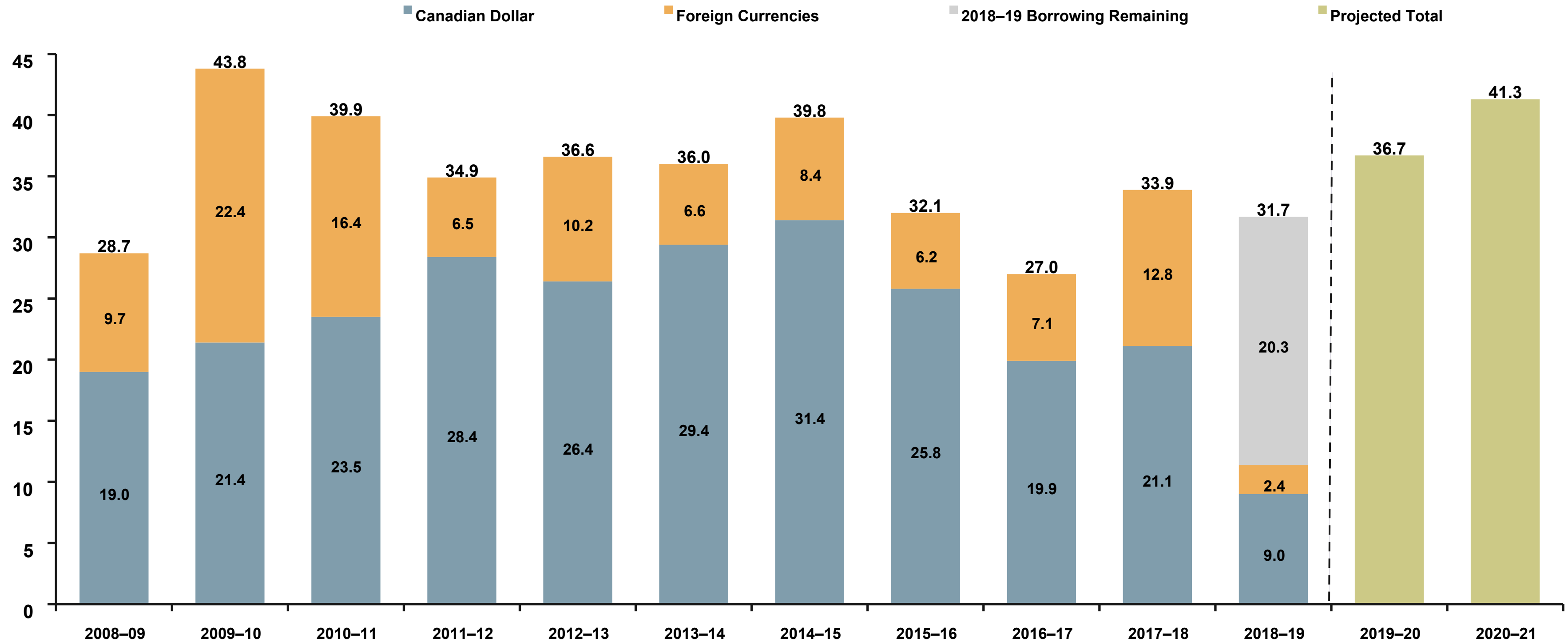
June 2018

www.ofina.on.ca

Domestic and International Borrowing

- Funding requirements must be met to allow the Province to pay its bills and meet its financial obligations.

Total Long-Term Borrowing
($ Billions)



Foreign	34%	51%	41%	19%	28%	18%	21%	19%	27%	38%	21%	–	–
Domestic	66%	49%	59%	81%	72%	82%	79%	81%	73%	62%	79%	–	–

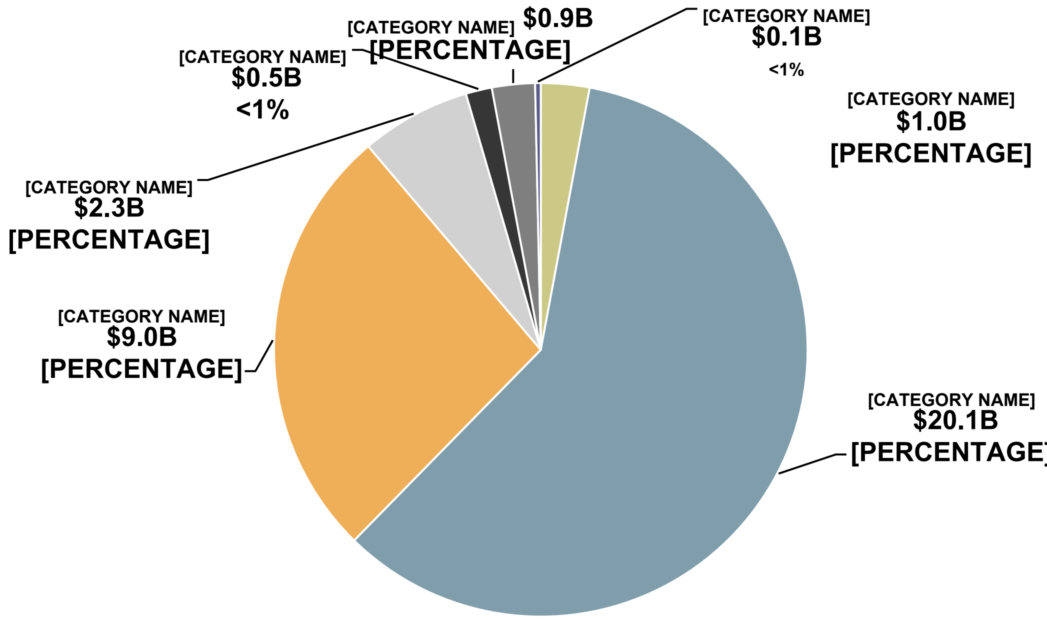
Note: As of June 4, 2018. Numbers may not add due to rounding.
Source: Ontario Financing Authority.

Ontario

2017–18 Borrowing Completed: $33.9 Billion

- The Province completed its annual borrowing program of $33.9 billion last fiscal year, including $11.5 billion pre-borrowed for 2018–19.
- The Province regularly accesses borrowing opportunities in currencies other than Canadian dollars to relieve pressure on the domestic bond market. This helps reduce Ontario's overall borrowing costs and ensures that the Province will continue to have access to capital if domestic market conditions become more challenging.

As of March 31, 2018

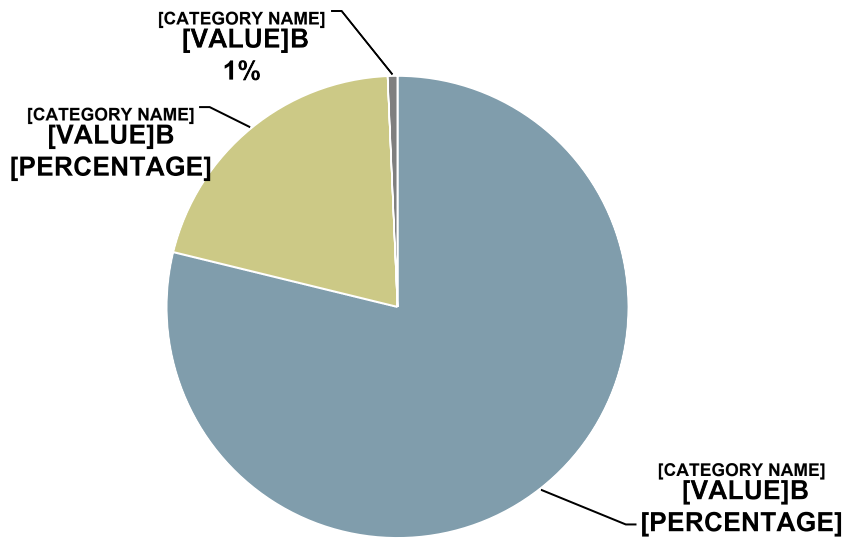


2017–18 Total Borrowing Requirement:	**$33.9B**
Domestic:	**62%**
International:	**38%**
Average Term:	**12.1 years**

2018–19 Borrowing Completed: $11.4 Billion

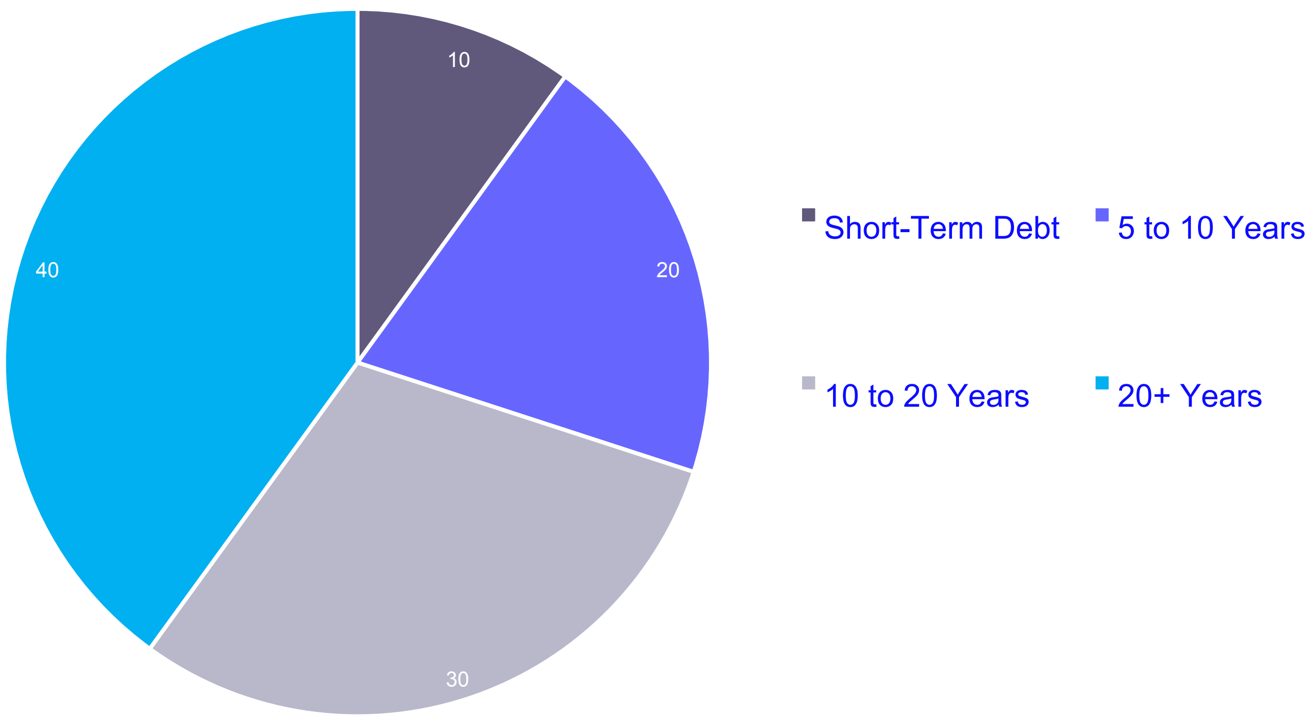
- As outlined in the *2018 Budget*, the Province's total long-term public borrowing requirement for this fiscal year is currently forecast to be $31.7 billion.

As of June 4, 2018



2018–19 Total Borrowing Requirement:	**$31.7B**
2018–19 Total Borrowing Completed:	**$11.4B**
Domestic:	**79%**
International:	**21%**
Average Term:	**16.1 years**

Ontario Total Debt by Maturity



Credit Ratings

- The OFA maintains close relationships and ongoing dialogue with credit rating agencies throughout the year to keep them apprised of the government's financial status, policies and initiatives, and to ensure these are accurately reflected in the agencies' ratings and reports.
- Rating Agencies typically release their reports on the Province following the release of the Ontario Budget. However, this year, S&P and Fitch decided to wait until after the election to release their full reports.
- A downgrade to the Province's credit ratings would result in higher interest rates on Ontario debt. Lower ratings could also lessen the number of investors able to buy Ontario bonds, or lower the amount of Ontario debt that each investor is allowed, by their internal limits, to hold.
- Ontario currently maintains a double A rating with three of the four agencies:

Rating Agencies	Long-term Rating	Short-term Rating	Outlook
Moody's	Aa2 (N)	P-1	negative
FitchRatings	AA-	F1+	stable
DBRS	AA (low)	R-1 (mid)	stable
Standard & Poor's	A+	A-1	stable

Key Debt Ratios

Rating agencies use a number of key debt ratios when assessing Ontario's rating:

- Deficit-to-Revenue
- After-Capital Deficit-to-Revenue
- Net Debt-to-GDP
- Net Debt-to-Revenue
- Interest on Debt-to-Revenue

Measuring Debt

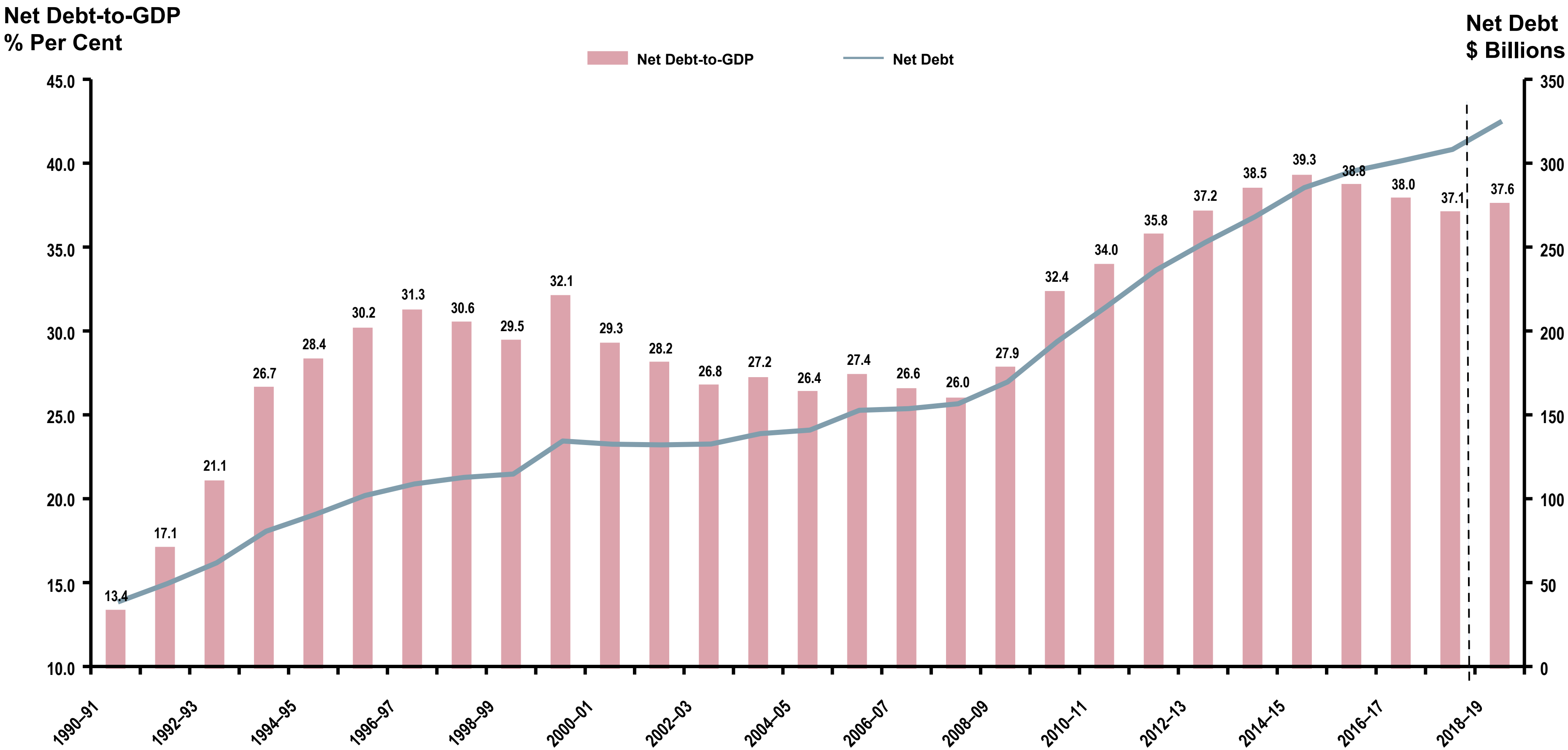
- Definitions of debt:
  - **Net Debt** is the Accumulated Deficit plus Net Investments in Capital Assets
  - **Accumulated Deficit** is the sum of all deficits and surpluses since Confederation
  - **Total Debt** is the full amount of outstanding debt the government has on its books
- Financial markets use Net Debt as their primary measure because it is a more accurate assessment of the Province's financial position than Total Debt. Net Debt, unlike Total Debt, takes into account the remaining liability borne by taxpayers if all financial assets were to be liquidated and used to pay down debt. Non-financial assets like bridges, and other infrastructure, generally cannot be easily sold nor measured at fair market value, and thus are not deducted when calculating Net Debt.
- Accumulated Deficit and Net Debt were equal until 2001–02 when the accounting treatment changed to allow amortization of capital assets.
- Borrowing creates an obligation that has to be repaid in the future, which allows for lower taxes and/or sustained services today at the expense of lower services and/or higher taxes in the future.

Province's Debt History

($ Millions)	Outlook 2018–19	Interim 2017–18	2016–17	2015–16	2014–15	2013–14	2012–13	2011–12	2010–11	2009–10
Net Debt	325,041	308,203	301,648	295,372	285,403	267,968	252,823	236,230	214,511	193,589
Interest on Debt	12,543	11,965	11,709	11,589	11,221	11,155	10,878	10,587	10,005	9,119
Accumulated Deficit	199,153	192,449	193,510	192,029	187,511	176,634	167,132	158,410	144,573	130,957

Net Debt and Net Debt-to-GDP

- Ontario's Net Debt-to-GDP ratio has modestly declined since peaking in 2014–15, if the Auditor General's accounting treatment is not incorporated. However, Net Debt has continued to grow primarily because of investments in capital assets and deficits.

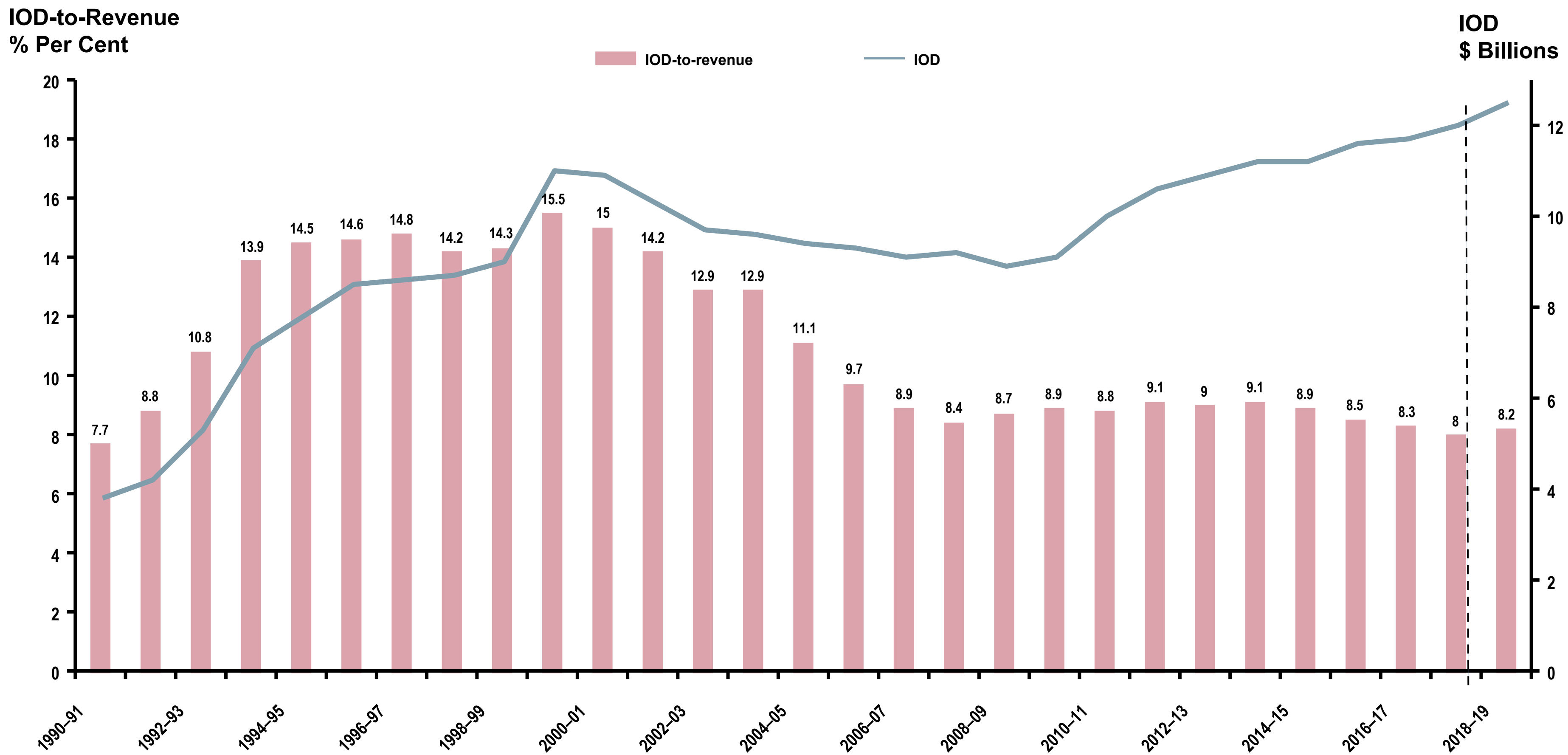


Note: Net Debt has been restated to include broader public sector net debt, starting in 2005–06.
Sources: Statistics Canada and Ontario Ministry of Finance.

Interest on Debt (IOD) and IOD-to-Revenue

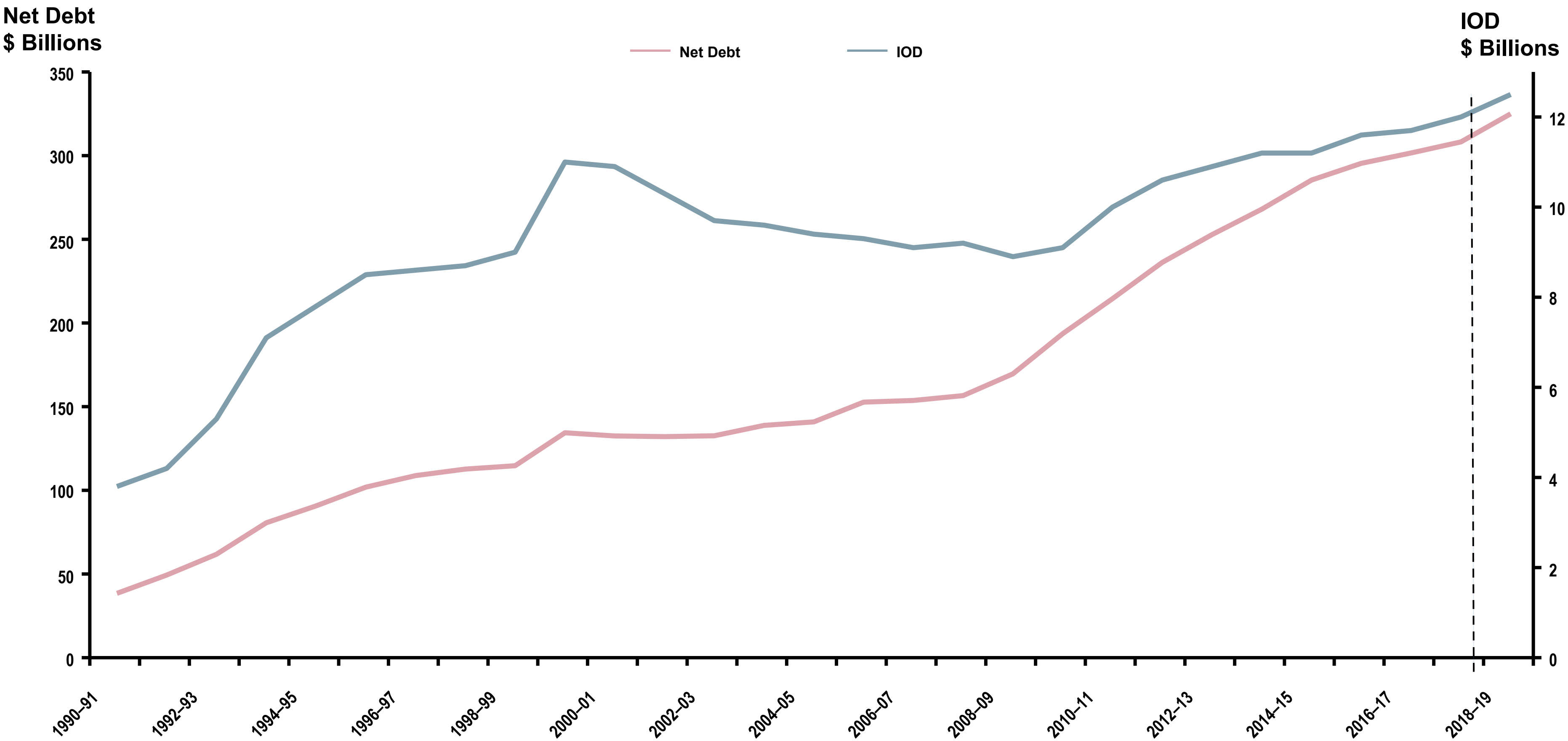
- The interim forecast contained in the *2018 Budget* for Ontario's 2017-18 IOD expense was $12.0 billion. The forecast for 2018-19 contained in the Budget was $12.5 billion.

- IOD-to-revenue is a key measure of the affordability of debt. An extended period of low interest rates has kept this ratio well below the average of the last 25 years in spite of rising debt levels.



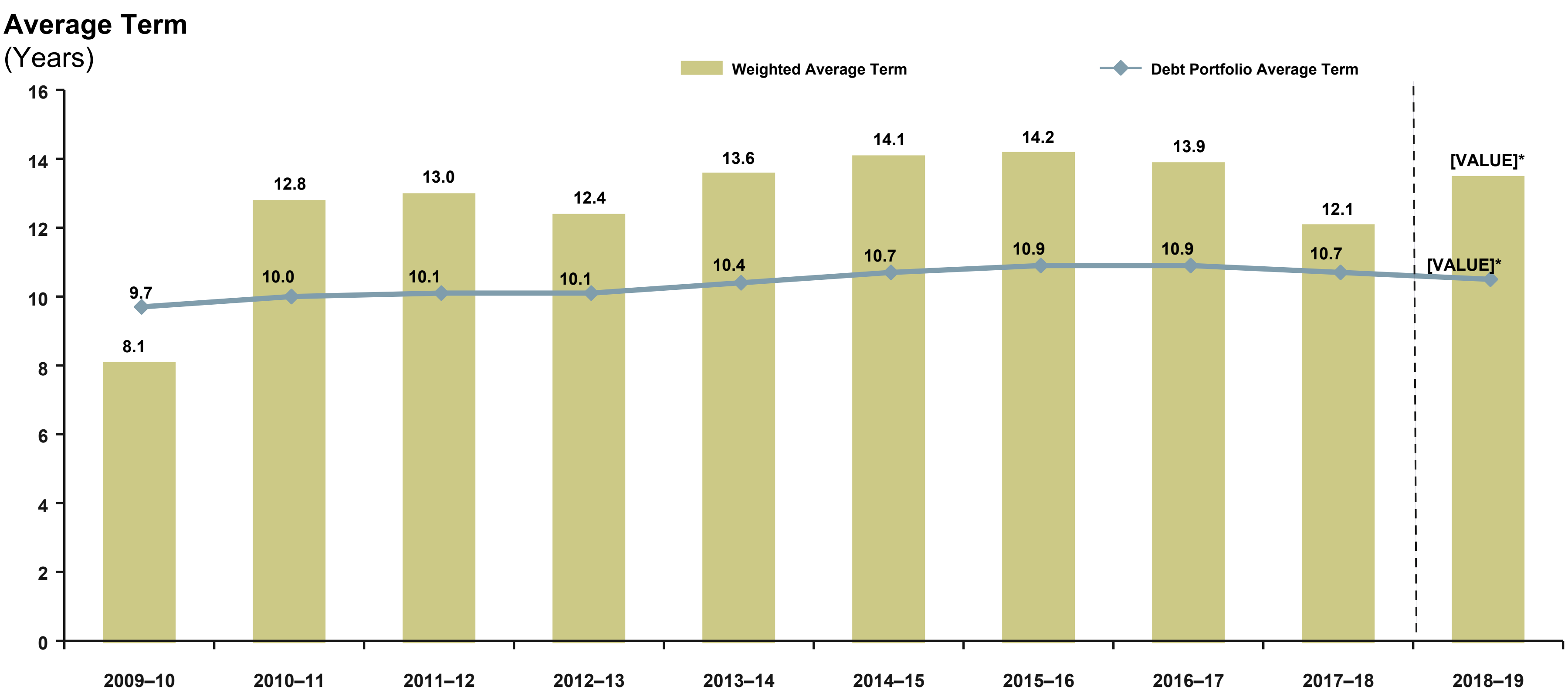
Net Debt and IOD

- Combining the previous two charts, we can observe that Net Debt has steadily increased since 1990, while lower interest rates in the period since 2000, compared to the 1990s, have kept IOD from rising as quickly.
- The global decline in interest rates over the past 25 years is already showing signs of modestly reversing, which may result in IOD rising more quickly in the future and crowding fiscal capacity.



Weighted-Average Term of Borrowing

- The OFA decided to extend the term of the Province's debt portfolio in 2010-11 to ensure that low interest rates would remain locked in for a longer period. This has reduced refinancing risks and helped offset the impact of expected higher interest rates on the Province's future IOD costs. Rating agencies treat this as positive for the Province's credit.
- Going back to the beginning of fiscal 2010–11, Ontario has issued $74.5 billion of bonds with terms longer than 30 years to lock in low interest rates.

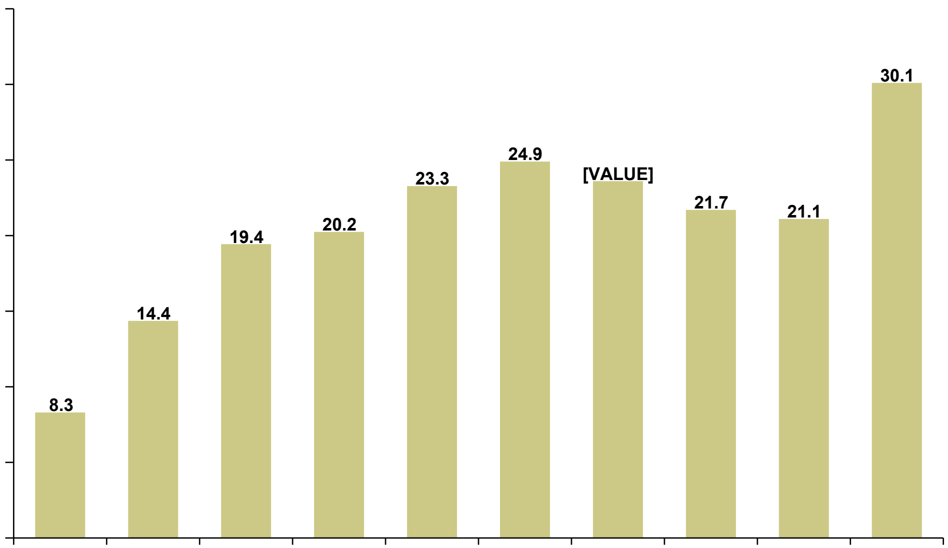


* Both the weighted borrowing average and the debt portfolio average terms are on a forecast basis for 2018-19. The weighted borrowing average year-to-date is 16.1 years.

Liquidity and Short-Term Borrowing Capacity

- The OFA manages the Province's liquid reserve portfolio (cash and short-term investments) to optimize investment returns and to ensure that sufficient funds are available to meet cash requirements.
- Starting in 2019–20, the Province will have large cash outflows on single days, rather than having debt maturities spread more evenly through the year. In anticipation of the need for cash reserves to meet these requirements for large outflows on a single day, the Province began building larger cash reserves in 2017–18.

Average Unrestricted Liquid Reserve Levels
($ Billions)



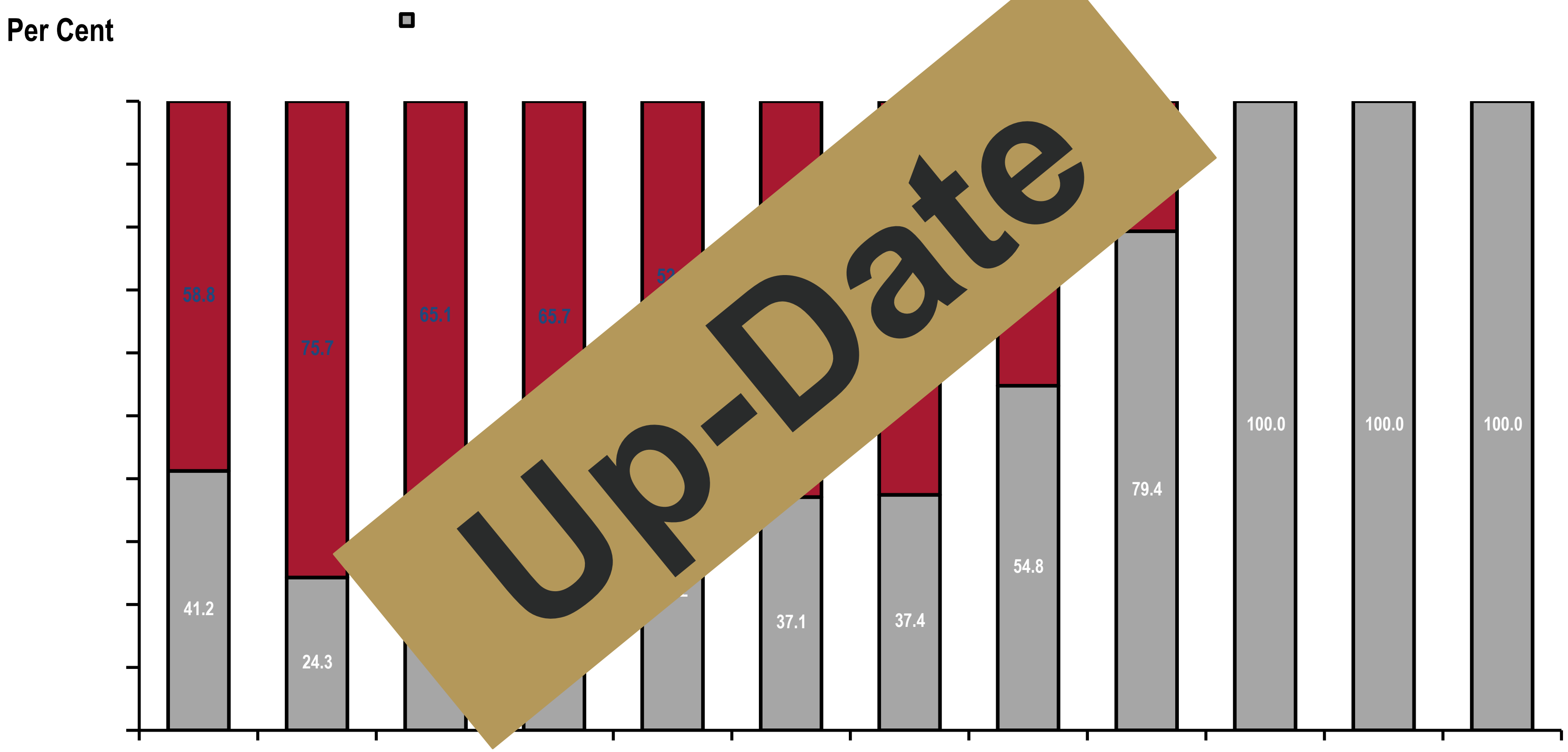
Note: As of March 31, 2018

($ Billions)	C$ T-Bill Program	U.S.$ Commercial Paper Program	Total
Currency	Canadian Dollars	U.S. Dollars	–
Maturity	1 day-3 years*	1-270 day(s)	–
Authorized	C$33.0	C$15.0	C$48.0
Outstanding	C$18.0	C$3.8	C$21.8
Available	C$15.0	C$11.2	C$26.2

**Regular issuance of 3M, 6M and 1Y T-Bills*
Note: As of March 31, 2018. Numbers may not add due to rounding.

Source: Ontario Financing Authority.

Share of Debt due Capital Borrowing



Notes: The 2015–16 actuals have been restated to reflect recognizing jointly sponsored net pension assets for the Ontario Public Service Employees' Union and the Ontario Teachers' Pension Plan on the Province's financial statements, consistent with the *2016 Budget* and as described in the *2016—17 Third Quarter Finances*.
Source: Ontario Financing Authority.